

BY THE COMPTROLLER GENERAL

546-D

Report To The Congress

OF THE UNITED STATES

Review Of The Audit Of The Disabled American Veterans National Headquarters' Financial Statements For The Year Ended December 31, 1982

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GAO reviewed the independent certified public accountant's audit of the Disabled American Veterans (DAV) National Headquarters' financial statements for the year ended December 31, 1982. GAO found nothing which would indicate that the independent certified public accountant's opinion on the financial statements is inappropriate or cannot be relied on. GAO therefore concurs with the opinion.

In the opinion of DAV's independent certified public accountant, subject to the effect of an uncertainty regarding Federal income taxes, DAV's financial statements present fairly the financial position of DAV at December 31, 1982, and the results of its operations for the year then ended.



GAO/AFMD-83-103
SEPTEMBER 30, 1983

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-55712

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our review of Deloitte Haskins & Sells' (DH&S') audit of the financial statements (app. 1) of the Disabled American Veterans (DAV) National Headquarters for the year ended December 31, 1982. DAV engaged DH&S to perform its audit as required by 36 U.S.C. 1102. Our review was made pursuant to the provisions of 36 U.S.C. 901(b) which requires the Comptroller General to audit DAV's financial statements annually.

In order to avoid unnecessary duplication and expense and to make the most efficient use of our available resources, we are relying on the work and report of DAV's independent certified public accountant. We made inquiries, examined DH&S' workpapers, and performed analytical procedures to determine the quality of the DH&S' work and the extent to which we could rely on it. We reviewed the adequacy of the independent accountant's work on internal controls and compliance with laws and regulations.

In the opinion of DH&S, subject to the effect of such adjustments, if any, as might have been required had the outcome of an uncertainty regarding Federal income taxes been known, DAV's financial statements present fairly the financial position of DAV at December 31, 1982, and the results of its operations and changes in its fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. During our review we found nothing which would indicate that DH&S' opinion on DAV's 1982 financial statements is inappropriate or cannot be relied on. The independent accountant's work did not disclose any material internal control weaknesses or noncompliance with laws and regulations. We concur with and transmit to the Congress DH&S' opinion on DAV's financial statements. The opinion and financial statements are in appendix I.

We are sending copies of this report to the Director, Office of Management and Budget, and to the National Adjutant, Disabled American Veterans.

Charles A. Bowsher
Comptroller General
of the United States

DISABLED AMERICAN VETERANS
NATIONAL HEADQUARTERS

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National Finance Committee
Disabled American Veterans,
National Headquarters
Cold Spring, Kentucky 41076

March 3, 1983

Dear Sirs:

We have examined the financial statements of Disabled American Veterans, National Headquarters ("DAV"), for the year ended December 31, 1982, listed in the foregoing table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 7 to the financial statements, DAV has been assessed federal income taxes and interest for the years 1970 through 1973. Additionally, DAV has received a report of examination claiming income tax deficiencies for the years 1974 through 1979. In order to contest the assessments for 1970 through 1973 in the U. S. Court of Claims, DAV paid the amounts assessed and recorded such amounts in the accompanying unrestricted fund balance sheet as a claim for refund of taxes. For the years 1974 to 1979, DAV has filed a protest to the claimed deficiencies with the Appeals Office of the Internal Revenue Service. The amount of refund for the years 1970 through 1973, if any, that may ultimately result from the action in the U. S. Court of Claims, the outcome of the appeal of the report of examination for 1974 through 1979, or any additional assessments that may be proposed for years after 1979 are not presently determinable.

In our opinion, subject to the effects of such adjustments, if any, as might have been required, had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements listed in the table of contents present fairly the financial position of Disabled American Veterans, National Headquarters, at December 31, 1982, and the results of its operations and the changes in its fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Yours truly,

Deloitte Haskins + Sells

DISABLED AMERICAN VETERANS
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BALANCE SHEET, DECEMBER 31, 1982 WITH COMPARATIVE TOTALS FOR 1981

<u>ASSETS</u>	<u>NOTES</u>	<u>1982</u>	<u>1981</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>NOTES</u>	<u>1982</u>	<u>1981</u>
UNRESTRICTED OPERATING AND DESIGNATED FUNDS:				UNRESTRICTED OPERATING AND DESIGNATED FUNDS:			
Current assets:				Current liabilities:			
Cash and cash equivalents		\$ 1,528,596		Bank overdraft			\$ 102,879
United States Government securities - at cost (approximates market)		5,363,807	\$ 6,906,216	Accounts payable	\$	790,848	594,697
Accounts receivable		446,079	553,479	Accrued expenses:			
Interest and dividends receivable		681,515	707,337	Salaries		589,589	509,022
Inventories	2	1,788,716	1,500,192	Vacation pay and sick pay		5,740,128	5,021,845
Prepaid expenses		1,203,299	544,648	Other		43,219	106,803
Prepaid pension expense	5	1,020,482	1,449,293	Deferred dues and service fees collected in advance, etc.		1,395,865	1,323,411
Total current assets		12,032,494	11,661,165	Total current liabilities		8,559,649	7,658,657
Investments in securities - at cost (approximate market value: 1982, \$34,028,000; 1981, \$26,004,000)	2	32,995,409	29,077,767	Operating and designated funds:			
Claim for refund of taxes	7	4,267,140	4,267,140	Undesignated operating fund available for general activities		37,990,816	34,247,769
				Designated by the National Finance Committee for:	3		
				Scholarships		750,919	1,225,721
				Emergency Relief		578,343	335,061
				Disaster relief		1,351,964	1,440,665
				Health Services		63,352	98,199
				Total		40,735,394	37,347,415
TOTAL UNRESTRICTED OPERATING AND DESIGNATED FUNDS				TOTAL UNRESTRICTED OPERATING AND DESIGNATED FUNDS			
		\$49,295,043	\$45,006,072			\$49,295,043	\$45,006,072
FIXED ASSETS FUND:	2			FIXED ASSETS FUND - Fund balance		\$ 7,222,919	\$ 8,509,680
Property for sale or leased to others (less accumulated depreciation - 1981, \$2,443,098)		\$ 69,538	\$ 1,080,102				
Land, buildings and equipment (less accumulated depreciation: 1982, \$3,293,902; 1981, \$2,841,935)		7,153,381	7,429,578				
TOTAL FIXED ASSETS FUND		\$ 7,222,919	\$ 8,509,680	TOTAL FIXED ASSETS FUND		\$ 7,222,919	\$ 8,509,680

DISABLED AMERICAN VETERANS
NATIONAL HEADQUARTERS

BALANCE SHEET, DECEMBER 31, 1982 AND COMPARATIVE TOTALS FOR 1981

<u>ASSETS</u>	<u>NOTES</u>	<u>1982</u>	<u>1981</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>NOTES</u>	<u>1982</u>	<u>1981</u>
RESTRICTED LIFE MEMBERSHIP FUND:	4			RESTRICTED LIFE MEMBERSHIP FUND:			
Cash		\$ 751,999	\$ 162,105	Accounts payable		\$ 46,256	\$ 11,713
Accrued interest and dividends		696,513	654,415	Reserve for future distribution of	4	33,014,645	29,228,836
United States Government securities - at				membership dues			
cost (approximates market)		4,116,061	3,416,117				
Investments in securities - at cost							
(approximate market value: 1982,	2	27,496,328	25,007,912				
\$27,520,000; 1981, \$21,605,000)							
TOTAL RESTRICTED LIFE MEMBERSHIP FUND		<u>\$33,060,901</u>	<u>\$29,240,549</u>	TOTAL RESTRICTED LIFE MEMBERSHIP FUND		<u>\$33,060,901</u>	<u>\$29,240,549</u>

See notes to financial statements.

DISABLED AMERICAN VETERANS
NATIONAL HEADQUARTERS

EXHIBIT B

STATEMENT OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 1982 WITH COMPARATIVE TOTALS FOR 1981

	NOTE	UNRESTRICTED OPERATING AND DESIGNATED FUNDS	FIXED ASSETS FUND	TOTAL ALL FUNDS..... 1982	1981
SUPPORT AND REVENUE:					
Support:					
Contributions and revenue received from direct mail solicitations, etc.		\$28,062,233		\$28,062,233	\$25,742,445
Donations and bequests		145,184		145,184	415,906
Total support		<u>28,207,417</u>		<u>28,207,417</u>	<u>26,158,351</u>
Revenue:					
Membership dues and fees	4	2,808,914		2,808,914	2,679,471
Income from investments (principally interest)		3,451,865		3,451,865	3,307,750
Rental from property held for lease, less related operating costs (1982, \$56,854; 1981, \$67,783) and depreciation (1982, \$39,333; 1981, \$42,909)		266,259	\$ (39,333)	226,926	227,895
Gain on sale of leased property			2,518,769	2,518,769	
Sale of emblems, etc., less related direct costs (1982, \$674,788; 1981, \$703,693)		98,178		98,178	138,217
Subscription revenue		21,144		21,144	21,084
Miscellaneous		49,489		49,489	45,515
Total revenue		<u>6,695,849</u>	<u>2,479,436</u>	<u>9,175,285</u>	<u>6,419,932</u>
Total support and revenue		<u>34,903,266</u>	<u>2,479,436</u>	<u>\$37,382,702</u>	<u>\$32,578,283</u>
EXPENSES (Exhibit C):					
Program services:					
Maintenance of staff of National Service Officers		17,248,731	209,654	\$17,458,385	\$15,658,126
Publications and other communications		2,794,135	1,918	2,796,053	2,267,724
Membership services		1,645,634	59,918	1,705,552	1,401,424
Other		1,415,696		1,415,696	1,535,031
Total program services		<u>23,104,196</u>	<u>271,490</u>	<u>23,375,686</u>	<u>20,862,305</u>
Supporting services:					
Fund raising costs		9,800,816	147,566	9,948,382	8,988,026
Administrative and general expenses		1,918,794	38,622	1,957,416	1,550,538
Total supporting services		<u>11,719,610</u>	<u>186,188</u>	<u>11,905,798</u>	<u>10,538,564</u>
Total expenses		<u>34,823,806</u>	<u>457,678</u>	<u>\$35,281,484</u>	<u>\$31,400,869</u>
EXCESS OF PUBLIC SUPPORT AND REVENUE OVER EXPENSES		79,460	2,021,758		
FUND BALANCE, BEGINNING OF YEAR		37,347,415	8,509,680		
OTHER CHANGES IN FUND BALANCE:					
Fixed assets purchased by Unrestricted Operating Fund		(181,481)	181,481		
Transfer of proceeds from disposal of fixed assets		<u>3,490,000</u>	<u>(3,490,000)</u>		
FUND BALANCE, END OF YEAR		<u>\$40,735,394</u>	<u>\$7,222,919</u>		

See notes to financial statements.

EXHIBIT C

DISABLED AMERICAN VETERANS

NATIONAL HEADQUARTERS

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1982 WITH COMPARATIVE TOTALS FOR 1981

	NOTES	PROGRAM SERVICES.....					SUPPORTING SERVICES.....			TOTAL EXPENSES.....	
		MAINTENANCE OF STAFF OF NATIONAL SERVICE OFFICERS	PUBLICATIONS AND OTHER COMMUNICATIONS	MEMBERSHIP SERVICES	OTHER	TOTAL	FUND RAISING COSTS	ADMINISTRATIVE AND GENERAL EXPENSES	TOTAL	1982	1981
Salaries		\$10,295,674	\$ 228,701	\$ 645,935		\$11,170,310	\$3,197,171	\$ 902,732	\$ 4,099,903	\$15,270,213	\$13,976,366
Employee benefits	5	3,548,925	74,413	214,672		3,838,010	1,166,505	355,535	1,522,040	5,360,050	4,396,552
Disbursements for scholarship, disaster, and relief purposes, etc.					\$1,355,067	1,355,067				1,355,067	1,502,599
Grants to other organizations					60,629	60,629				60,629	32,432
Expenses of National Convention		215,361				215,361				215,361	191,474
Expenses of National Commander and Staff		267,974				267,974				267,974	236,230
Payroll taxes		726,717	15,327	63,914		805,958	394,212	75,298	469,510	1,275,468	1,001,311
Travel expenses - Field Service Units and others		694,279	23,998	16,342		734,619	27,515	59,166	86,681	821,300	791,335
Postage		266,637	479,968	174,129		920,734	1,098,765	13,312	1,112,077	2,032,811	1,752,131
Rental of space and equipment		13,027		32,702		45,729	39,042	13,469	52,511	98,240	95,290
Supplies		252,934	54,061	287,033		594,028	120,249	60,634	180,883	774,911	576,373
Relocation of personnel		44,108				44,108				44,108	47,391
Expenses of national officials at state conventions		38,899				38,899				38,899	43,449
Insurance		105,725	1,788	5,187		112,700	41,980	14,745	56,725	169,425	115,627
Telephone and telegraph		41,240	3,219	4,111		48,570	13,920	22,354	36,274	84,844	95,993
Maintenance and repairs		64,854	1,625	41,718		108,197	126,475	25,956	152,431	260,628	297,836
Express and hauling		11,395	18,294	2,947		32,636	40,503	1,863	42,366	75,002	58,252
Outside service - labor		6,374				6,374				6,374	2,906
Project cost		446,639	437,752	92,478		976,869		299	299	977,168	562,110
Printing of magazine			1,420,318			1,420,318				1,420,318	1,254,064
Commissions							296,391		296,391	296,391	243,216
Cost of solicitation mailings - materials							2,966,291		2,966,291	2,966,291	2,847,662
Awards				42,977		42,977		4,570	4,570	47,547	51,332
Heat, light, water, and power		65,106		16,396		81,502	223,509	17,142	240,651	322,153	286,895
Security service		48,584				48,584	135,170		135,170	183,754	167,745
Professional fees		1,000				1,000		314,917	314,917	315,917	202,550
Dues and subscriptions		23,206		688		23,894	4,986	12,934	17,920	41,814	35,283
Other		70,073	34,671	4,405		109,149	29,242	23,868	53,110	162,259	143,983
Increase in labor and overhead costs in inventory							(121,110)		(121,110)	(121,110)	(39,832)
Total expenses before depreciation		17,248,731	2,794,135	1,645,634	1,415,696	23,104,196	9,800,816	1,918,794	11,719,610	34,823,806	30,969,055
Depreciation of fixed assets	2	209,654	1,918	59,918		271,490	147,566	38,622	186,188	457,678	431,814
TOTAL		\$17,458,385	\$2,796,053	\$1,705,552	\$1,415,696	\$23,375,686	\$9,948,382	\$1,957,416	\$11,905,798	\$35,281,484	\$31,400,869

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DISABLED AMERICAN VETERANS
NATIONAL HEADQUARTERS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1982

1. ORGANIZATION

The Disabled American Veterans (DAV) is a Congressionally Chartered, not-for-profit service organization specifically organized to provide for the rehabilitation and continuing welfare of the Nation's disabled veterans, their families, dependents, and survivors. DAV's principal program (social) service activities are:

- . maintenance of national service officers in all Veterans Administration Regional and Contact Offices to assist veterans in obtaining benefits to which they are entitled under law
- . identification of veterans eligible for assistance and referral of such veterans to DAV service officers
- . publication of a monthly magazine and other communications for disabled veterans, in order to provide information regarding veterans' benefits and social activities
- . coordination of DAV's state departments and local membership chapters which provide a social environment to aid the veteran in personal and social development
- . maintenance of special and need programs for emergency relief, disaster relief and scholarships to disabled veterans and their dependents

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements - The accompanying financial statements have been prepared in accordance with the principles contained in the Audits Of Voluntary Health And Welfare Organizations published by the American Institute of Certified Public Accountants.

Leased Property - Property leased to others is accounted for under the operating method of accounting for lease transactions, and has accordingly been segregated from other property assets in the balance sheet. The property which had been leased to others was sold in 1982.

Inventories - Inventories, stated at the lower of cost (principally on the first-in, first-out basis) or market, are as follows at December 31, 1982:

Materials and supplies	\$ 645,939
Solicitation materials	<u>1,142,777</u>
Total	<u>\$1,788,716</u>

Investments in Securities - Investments in securities are recorded at cost unless management judges that there has been a permanent impairment in value.

Fixed Assets Fund - Fixed assets are stated at cost less accumulated depreciation, and are comprised of the following at December 31, 1982:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land held for sale	\$ 69,538		\$ 69,538
Land and improve- ments	924,915	\$ 198,833	726,082
Buildings and improvement	6,011,043	1,254,809	4,756,234
Machinery and other equipment	<u>3,511,325</u>	<u>1,840,260</u>	<u>1,671,065</u>
Total land, buildings and machinery, etc.	<u>10,447,283</u>	<u>3,293,902</u>	<u>7,153,381</u>
Total	<u>\$10,516,821</u>	<u>\$3,293,902</u>	<u>\$7,222,919</u>

Depreciation is computed generally on the straight-line method over the estimated useful lives of assets which range from 3 to 50 years, and amounted to \$497,011 for 1982.

3. DESIGNATED FUNDS

Certain unrestricted funds have been designated by the National Finance Committee for the following purposes:

Scholarships - For financial assistance to children of disabled veterans who qualify scholastically and are in need of financial aid.

Emergency Relief - For financial assistance to disabled veterans for emergency health and welfare reasons.

Disaster Relief - For assistance to disabled veterans and their families who have suffered losses resulting from natural disasters.

Health Services - For research of health care provided by the VA hospital system.

4. RESTRICTED LIFE MEMBERSHIP FUND

Under the by-laws of the DAV, life membership in the organization is available and amounts so paid are required to be placed in a separate life membership fund and invested; the only allowable withdrawals from the fund are amounts required to pay chapter, department and national per capita dues for life members. Life membership receipts are deferred and recognized as income in the operating fund at the time such dues are transferred to the operating fund from the life membership fund, in accordance with the by-laws.

The following summary represents the changes during 1982 in the reserve for future distribution of membership dues:

Balance, January 1, 1982	\$29,228,836
Additions:	
Membership dues received	3,283,658
Earnings on invested fund assets	3,028,431
Total	<u>6,312,089</u>
Distribution of membership dues:	
National Headquarters - Unrestricted	
Operating and Designated Funds	1,447,769
Local Chapters	703,074
State Departments	375,437
Total	<u>2,526,280</u>
Balance, December 31, 1982	<u>\$33,014,645</u>

5. PENSION PLAN

DAV has a pension plan covering substantially all of its employees. The normal cost for 1982 of \$3,578,811 which includes amortization of prior service cost for active participants, as determined under the aggregate cost method, is included in employee benefits expense in the accompanying statement of functional expenses. Addi-

tional information with regard to the pension plan as of January 1, 1982, the date of the most recent actuarial valuation, is presented as follows:

Present value of vested accumulated plan benefits	\$27,803,298
Present value of non-vested accumulated plan benefits	299,699
Net assets available for benefits	31,161,982
Assumed rates of return in determining actuarial value of vested and non-vested plan benefits:	
Active employees	7.5%
Retired employees	8%

The prepaid pension expense in the accompanying unrestricted fund balance sheet represents payments made into the pension plan which will be applied to the normal cost of the plan in future years.

6. DISABLED AMERICAN VETERANS SERVICE FOUNDATION

The balance sheets do not include the net assets of the Disabled American Veterans Service Foundation (a separate corporation) which are held in trust by the Foundation and available to National Headquarters only by appropriation or dissolution of the Foundation. Based upon financial information (unaudited) at December 31, 1982, net assets of the Foundation were approximately \$1,852,000.

7. INTERNAL REVENUE SERVICE EXAMINATION

In 1976, the Internal Revenue Service, as a result of its examination of the years 1970 through 1973, assessed DAV taxes in the amount of \$3,510,000 and interest of \$757,000. DAV believed there was no tax liability, but as a procedural matter, paid the assessments plus interest and filed suit in the U. S. Court of Claims for recovery of amounts paid plus interest. Such amounts are recorded in the unrestricted fund balance sheets as a claim for refund of taxes. During 1981, judgment was rendered on this suit by the U. S. Court of Claims in favor of DAV on certain issues but in favor of the Internal Revenue Service on certain other issues. Subsequent to this action, a further trial was held in 1982 as to the

appropriate amount of the refunds under the Court's opinion, and this issue was decided partly in favor of DAV and partly in favor of the Internal Revenue Service. This opinion is now on appeal to the United States Court of Appeals for the federal circuit. As of March 3, 1983, this matter is still pending.

As a result of another examination in 1980, the Internal Revenue Service issued its Report of Examination on April 19, 1982 claiming income tax deficiencies of \$1,662,100 for the years 1974 through 1979. DAV filed a protest to the claimed deficiencies with the Appeals Office of the Internal Revenue Service. As of March 3, 1983, this matter is still pending. There are also indications that additional assessments may be proposed by the Internal Revenue Service for the years 1980 through 1982. The estimated tax could approximate \$981,400 plus interest for those years.

Consequently, the amount of the refund that will ultimately result from the appeal of the case including the 1970 through 1973 years or any additional tax payments that may be required for 1974 through 1982 are not presently determinable.
